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TAGS: ECON EFIN ELAB PGOV IT KPRP ITALIAN POLITICS
SUBJECT: ITALY: TAKEOVERS SHAKE-UP BANKING SECTOR

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¶B. 04 ROME 4149

SUMMARY

¶1. (SBU) The December 2005 resignation of Bank of Italy (BOI) Governor Antonio Fazio, and the appointment of reformist Mario Draghi, has raised expectations that a wave of bank mergers will sweep Italy in 2006. French bank BNP-Paribas made the first move, taking over Banca Nazionale del Lavoro (BNL), Italy's sixth largest bank. BOI approved the tender offer March 20, and BNP is expected to take full control of BNL by summer 2006.

¶2. (SBU) In early March, Governor Draghi stated a clear preference for increased competition in Italian credit and banking markets, to "innovate, reduce costs, and improve services." Weeks before national elections, Draghi's comment has let Italian banks know they will no longer benefit, to the extent previously, from Central Bank protection from foreign takeovers. END SUMMARY.

French Take-Over Opens the Door.

¶3. (U) French bank BNP Paribas made a surprise announcement February 3 that it would buy 48 percent of Banca Nazionale del Lavoro (BNL), Italy's sixth largest bank, from the Italian insurance company UNIPOL, and other, smaller shareholders. In anticipation of a merger offer, BNL had cleaned up its balance sheet by selling non-performing loans to Morgan Stanley in December; disposed of assets in Argentina; and restructured the bank's Iraqi debt. Unipol and its affiliates were eager to sell their huge stake in BNL, following the rejection of their earlier offer to buy the bank.

¶4. (U) BNP plans another offer to acquire the remaining BNL assets. If the deal goes through, the BNL acquisition by BNP will be worth nine billion euro, the third-largest cross-border merger in the European banking sector. BNP received approval from BOI, March 20, to complete the acquisition, and is awaiting approval from Consob, the financial market regulator, and Italy's antitrust agency.

The First of More Foreign Bank Takeovers

¶5. (U) During former BOI President Fazio's tenure, foreign banks required BOI authorization to increase their ownership in Italian banks, if the tender exceeded fifteen- percent of equity. The fall of Fazio and passage of the financial market reform bill (ref A) removed the fifteen percent foreign ownership cap for banks, and drastically reduced the unilateral power of the BOI governor.

¶6. (U) Foreign banks are quickly increasing their stakes in Italian banks. Following the acquisitions of BNL by BNP Paribas, and Banca Antonveneta by ABN Amro, foreign banks now control over nineteen percent of Italian banks' equity, or some 37 billion euros. French banks own almost half of the foreign-controlled assets, with stakes not only in BNL, but also in Carifirenze, Mediobanca, Carige, SanPaolo-IMI, Unicredit and Popolare di Milano.

Big Mergers on the Horizon?

¶7. (U) Following the BNP/BNL merger, the Italian

press is bubbling with rumors that Citigroup is eyeing a possible takeover of Unicredit, Italy's largest bank, while Unicredit has set its sights on German and Polish banks. Last year Unicredit merged with Hvb, Germany's second largest banking group, which at the time was the largest cross-border bank merger deal in Europe, and created a bank with 780 billion euro in assets.
¶8. (U) Possible domestic merger rumors include Banca Intesa, Italy's second largest bank, and Monte dei Paschi di Siena (MPS), Italy's fifth largest bank. Banca Intesa has confirmed it is considering acquisitions to boost growth, but dismissed the rumors of the ten billion euro merger with MPS.

¶9. (SBU) Banca Intesa is also rumored to be eyeing a hostile take-over of Capitalia, and this news has caused both banks' stock to rise sharply. In defense, Capitalia purchased two percent of Banca Intesa shares to force Banca Intesa, under Italy's complicated and anti-competitive cross-shareholding laws, to either make a cash offer for a 60 percent stake, or negotiate a friendly takeover with Capitalia.

¶10. (SBU) There are rumors of another big project: the merger between Banca Intesa, Mediobanca and Generali, Italy's largest insurance company, to create one of Europe's largest financial services conglomerates. If this deal went through, French companies would further increase their already substantial shareholdings in Italy's banking and insurance sectors. After the French scotched Enel's takeover attempt of Suez, however, it is doubtful Italy's political and financial community would approve this project, especially as it falls on the heels of the BNP/BNL deal.

¶11. (U) In addition, any takeover move by Intesa requires the approval of French-giant Credit Agricole, an important shareholder in Intesa. Credit Agricole's President, Rene Carron, said March 6 the bank will mobilize "considerable firepower" to protect Banca Intesa. Credit Agricole's influential role in Intesa's shareholder pact expires April
¶2008.

Stumbling Blocks

¶12. (U) The Poison Pill. Italy has also played its part in Europe's recent protectionist response to cross-border mergers. Reacting to France's proposal to allow "poison pill" defenses to hostile takeover bids, Finance Minister Tremonti said February 22 that while Italy's corporate merger law is "among the most open," poison pill defenses should be allowed when a firm "under attack has more limited defenses than the attacker." He did not specify what Italian entity might use a poison pill defense. However, he defended using this veto power by saying that Italy was among the most "market-oriented" EU countries, disliked protectionism, but could not ignore France's firm line on hostile takeover bids.

¶13. (U) Tremonti's statement received bipartisan support from Draghi; Prime Minister Berlusconi; Confindustria President Montezemolo; Democratici di Sinistra (DS), Italy's largest opposition party; and economic expert Pierluigi Bersani (former Minister of Productive Activities).

¶14. (SBU) Comment: While Tremonti supports both Italian bank consolidation as well as tougher Italian takeover laws to counter GOF protectionist efforts against foreign takeovers of French firms, his statement also reflects the current anxiety over transborder mergers sweeping across Europe. End Comment.

¶15. (U) Shareholder Pacts. Another stumbling block to mergers may be "shareholder pacts," designed to protect Italian banks and companies listed on Milan stock market from hostile takeovers. These pacts could also slow down future mergers.

Comment

¶16. (SBU) Italian banks have benefited from the country's regional banking markets, with lending margins among the highest in Europe. However, the banking sector lacks the sophistication found in other European countries; and while bank revenue per client in Italy is on par with other EU countries, Italian banks sell far fewer products to each

client. This factor suggests room to grow. In addition, Italy's high saving rate (eighteen percent of GDP in 2005), and the relatively undeveloped market of consumer credit, consumer loans, life insurance, and mortgages, makes continued shopping for Italian banks a likely prospect.

¶17. (SBU) However, the radical changes to Italy's financial sector through further consolidations, mergers, and acquisitions could causes unease domestically. In fact, some earlier opponents of Fazio's protectionist approach now seem to have taken up his mantle. They know Italian banks have historically helped to stabilize Italy's economy, through political deals like that for the Fiat convertible loan and the Alitalia bridge loan, for example. Italian leaders worry that foreign banks would be less inclined than Italian banks, to bail them out of loss-making ventures. End Comment.

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